

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Ann Arbor District Library	County Washtenaw
Fiscal Year End June 30, 2007	Opinion Date October 15, 2007	Date Audit Report Submitted to State October 26, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

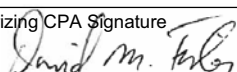
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337



**Ann Arbor, Michigan**

**FINANCIAL STATEMENTS**

**For The Year Ended  
June 30, 2007**



**REHMANN ROBSON**

*Certified Public Accountants*



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**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**



## **INDEPENDENT AUDITORS' REPORT**

October 15, 2007

To the Board of Trustees  
Ann Arbor District Library  
Ann Arbor, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of **ANN ARBOR DISTRICT LIBRARY**, as of and for the year ended June 30, 2007, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Ann Arbor District Library, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ann Arbor District Library's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

## MANAGEMENT'S DISCUSSION and ANALYSIS

## **Ann Arbor District Library Management's Discussion & Analysis**

As management of the Ann Arbor District Library, we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year that ended June 30, 2007.

### **Financial Highlights**

- ❑ The assets of the Library exceeded its liabilities at the close of the most recent fiscal year by \$26,185,053 (net assets). Of this amount, \$6,420,843 (unrestricted net assets) may be used to meet the Library's ongoing obligations.
- ❑ The Library's total net assets increased by \$3,474,907 during the year.
- ❑ As of the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$7,031,975, an increase of \$2,276,688 in comparison with the prior year. Approximately 94% or \$6,606,966 is available for spending at the Library's discretion (Unreserved fund balance.)
- ❑ At the end of the current fiscal year, unreserved fund balance for the general fund was \$6,575,731 or 50% percent of total general fund expenditures.

### **Overview of Financial Statements**

This discussion and analysis is intended to provide a basis of understanding the Library's basic financial statements. To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

### **Government-Wide Financial Statements**

The government-wide financial statement portions of this combined reporting format are designed to provide readers with a broad overview of the Library's finances, in a manner similar to the private business sector.

The statement of net assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net

assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported, as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave.)

The government-wide financial statements in this combined reporting format can be found on pages 9-12 of this report.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund level financial statement portions of this combined reporting format are designed to provide readers are provided to demonstrate compliance with finance-related legal requirements.

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirement.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Readers may get a better understanding of the long-term impact of the government's near-term financing decisions by doing it this way. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The basic governmental fund financial statements can be found within this combined reporting format as explained above on pages 9-12 of this report.

### **Notes to the Financial Statements**



The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-25 of this report.

### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Library, assets exceeded liabilities by \$26,185,053 at the close of the most recent fiscal year.

#### **Library's Net Assets Governmental Activities**

	<b><u>2005-2006</u></b>	<b><u>2006-2007</u></b>
Current and Other Assets	\$ 5,864,155	\$ 8,271,474
Capital Assets, Net	<u>18,203,954</u>	<u>19,407,975</u>
<b>Total Assets</b>	<b><u>24,068,109</u></b>	<b><u>27,679,449</u></b>
Current Liabilities Outstanding	1,108,868	1,239,499
Other Liabilities	<u>249,094</u>	<u>254,897</u>
<b>Total Liabilities</b>	<b><u>1,357,962</u></b>	<b><u>1,494,396</u></b>
<b>Net Assets:</b>		
Invested in Capital Assets	18,203,954	19,407,975
Restricted	353,151	356,235
Unrestricted	<u>4,153,042</u>	<u>6,420,843</u>
<b>Total Net Assets</b>	<b><u>\$22,710,147</u></b>	<b><u>\$26,185,053</u></b>

**Library's Changes in Net Assets  
Governmental Activities**

	<u><b>2005-06</b></u>	<u><b>2006-07</b></u>
Revenue		
Property Taxes	\$ 13,255,535	\$ 14,004,737
State penal fines	329,242	302,926
State aid	112,403	123,003
Interest income	275,328	500,135
Copier revenue	38,780	40,617
Grants and memorials	185,176	57,440
Library fines, fees and other	239,399	395,815
Non-resident fees	<u>22,061</u>	<u>23,103</u>
Total Revenue	<u>14,457,924</u>	<u>15,447,776</u>
Expenses		
Personnel costs	6,943,333	7,476,053
Purchased Services	848,173	902,753
Repairs and maintenance	209,666	254,138
Rent	261,761	266,347
Materials, supplies and expense	2,896,973	2,058,860
Other operating costs	536,820	386,337
Depreciation expense	<u>521,442</u>	<u>628,381</u>
Total expenses	<u>12,218,169</u>	<u>11,972,869</u>
Increase in net assets	<u>2,239,755</u>	<u>3,474,907</u>
Net assets beginning of year	<u>20,470,391</u>	<u>22,710,146</u>
Net assets end of year	<u>\$ 22,710,146</u>	<u>\$ 26,185,053</u>

As noted earlier, the Library increased net assets during the year ended June 30, 2007 by approximately \$3,274,000. This increase was primarily caused by capital outlay in the amount of approximately \$1,457,000 being added to capital assets as we continue to build the new branch on the northeast side. At the fund level, capital outlay is an expenditure, but in the government-wide reporting model, this capital addition is added into capital assets.

## **Financial Analysis of the Government's Funds**

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental Funds:** The focus of the Library's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Library's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$7,031,975 an increase of \$2,276,688 in comparison with the prior year. Approximately 94% of this total amount (6.6 million) constitutes unreserved fund balance, which is available for spending at the Library's discretion.

The General Fund is the chief operating fund of the Library. At the end of the current fiscal year, unreserved fund balance of the general fund was \$6,575,731 while total fund balance was \$6,675,740. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance each represent approximately 50% and 51% of total General Fund expenditures.

## **Capital Assets**

The Library's investment in capital assets as of June 30, 2007, amounted to \$19,407,975 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, and equipment. The total increase in the Library's investment in capital assets for the current fiscal year was 7%.

Major capital asset events during the current fiscal year included the following:

- ❑ Approximately \$1,500,000 was invested in the northeast branch project during the year.

**Library's Capital Assets  
(Net of Depreciation)**

	<u><b>2005-2006</b></u>	<u><b>2006-2007</b></u>
Land	\$ 2,108,183	\$ 2,108,183
Buildings and Construction in Progress	14,620,478	15,759,908
Vehicles	62,188	49,915
Equipment	<u>1,413,105</u>	<u>1,489,969</u>
<b>Total Capital Assets</b>	<u><b>\$18,203,954</b></u>	<u><b>\$19,407,975</b></u>

Additional information on the Library's capital assets can be found on page 20 of this report.

**General Fund Budgetary Highlights**

The original budget was amended once, to increase the purchased services line item by \$72,860. Actual revenues were greater than the budgeted amounts while the actual expenditures ended up less than the budgeted amounts.

**Factors Bearing on the Library's Future**

The following factors were considered in preparing the Library's budget for the 2007-2008 fiscal year:

- ❑ Increases in the employment and the collection budgets to reflect the anticipated opening of a new building and increased demand for non-print formats.
- ❑ Planned use of Fund Balance for branch expansion.

**Requests for Information**

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Associate Director, 343 S. Fifth Avenue, Ann Arbor, Michigan 48104.

## BASIC FINANCIAL STATEMENTS

**ANN ARBOR DISTRICT LIBRARY**  
**Governmental Funds Balance Sheet/Statement of Net Assets**  
**June 30, 2007**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b><u>ASSETS</u></b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 2,950,706	\$ 356,235	\$ 3,306,941	\$ -	\$ 3,306,941
Investments	4,435,711	-	4,435,711	-	4,435,711
Accounts receivable	364,182	-	364,182	-	364,182
Taxes receivable	93,362	-	93,362	-	93,362
Prepaid expenditures/expenses	71,278	-	71,278	-	71,278
Capital assets					
Assets not being depreciated	-	-	-	4,044,531	4,044,531
Assets being depreciated	-	-	-	15,363,444	15,363,444
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 7,915,239</u></b>	<b><u>\$ 356,235</u></b>	<b><u>\$ 8,271,474</u></b>	<b><u>19,407,975</u></b>	<b><u>27,679,449</u></b>
<b>Liabilities</b>					
Accounts payable	\$ 810,865	\$ -	\$ 810,865	-	810,865
Accrued payroll and benefits	428,634	-	428,634	-	428,634
Long-term liabilities					
Due within one year	-	-	-	30,000	30,000
Due after one year	-	-	-	224,897	224,897
Total liabilities	<u>1,239,499</u>	<u>-</u>	<u>1,239,499</u>	<u>254,897</u>	<u>1,494,396</u>
<b>Fund balances/Net assets</b>					
Fund balance - reserved for prepaid items	71,278	-	71,278	(71,278)	-
Fund balance - reserved for encumbrances	28,731	-	28,731	(28,731)	-
Fund balance - reserved for endowment	-	325,000	325,000	(325,000)	-
Fund balance - unreserved	<u>6,575,731</u>	<u>31,235</u>	<u>6,606,966</u>	<u>(6,606,966)</u>	<u>-</u>
Total fund balances	<u>6,675,740</u>	<u>356,235</u>	<u>7,031,975</u>	<u>(7,031,975)</u>	<u>-</u>
<b><u>Total Liabilities and Fund balances</u></b>	<b><u>\$ 7,915,239</u></b>	<b><u>\$ 356,235</u></b>	<b><u>\$ 8,271,474</u></b>		
Net assets:					
Investment in capital assets				19,407,975	19,407,975
Restricted for endowments - nonexpendable				325,000	325,000
Restricted for endowments - expendable				31,235	31,235
Unrestricted				<u>6,420,843</u>	<u>6,420,843</u>
Total net assets				<u>\$ 26,185,053</u>	<u>\$ 26,185,053</u>

The accompanying notes are an integral part of these financial statements.

**ANN ARBOR DISTRICT LIBRARY**  
**Reconciliation of Governmental Fund Fund Balances**  
**to Statement of Net Assets**  
**June 30, 2007**

Fund balances - total governmental funds	\$ 7,031,975
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	25,000,954
Deduct: accumulated depreciation	(5,592,979)

Certain liabilities, including amounts due for compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: compensated absences	<u>(254,897)</u>
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Net assets of governmental activities	<u><u>\$ 26,185,053</u></u>
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The accompanying notes are an integral part of these financial statements.

**ANN ARBOR DISTRICT LIBRARY**  
**Statement of Revenue, Expenditures**  
**and Changes in Fund Balances and Statement of Activities**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>	<b>Adjustments</b>	<b>Statement of Net Activities</b>
<b>Revenue</b>					
Property taxes, net	\$ 14,004,737	\$ -	\$ 14,004,737	\$ -	\$ 14,004,737
State penal fines	302,926	-	302,926	-	302,926
State aid	123,003	-	123,003	-	123,003
Interest income	497,051	3,084	500,135	-	500,135
Copier revenue	40,617	-	40,617	-	40,617
Grants and memorials	57,440	-	57,440	-	57,440
Library fines, fees and other	397,615	-	397,615	(1,800)	395,815
Non-resident fees	23,103	-	23,103	-	23,103
	<u>15,446,492</u>	<u>3,084</u>	<u>15,449,576</u>	<u>(1,800)</u>	<u>15,447,776</u>
<b>Total revenue</b>					
<b>Expenditures/expenses</b>					
Current:					
Personnel costs	7,470,250	-	7,470,250	5,803	7,476,053
Purchased services	947,860	-	947,860	-	947,860
Repairs and maintenance	238,132	-	238,132	-	238,132
Rent	274,415	-	274,415	-	274,415
Materials, supplies and expense	2,021,691	-	2,021,691	-	2,021,691
Other operating costs	386,337	-	386,337	-	386,337
Depreciation expense	-	-	-	628,381	628,381
Capital outlay/maintenance expense	1,834,203	-	1,834,203	(1,834,203)	-
	<u>13,172,888</u>	<u>-</u>	<u>13,172,888</u>	<u>(1,200,019)</u>	<u>11,972,869</u>
<b>Total expenditures/expenses</b>					
Net change in fund balances	2,273,604	3,084	2,276,688	(2,276,688)	-
Change in net assets	-	-	-	3,474,907	3,474,907
<b>Fund balance/net assets, beginning of year</b>	<u>4,402,136</u>	<u>353,151</u>	<u>4,755,287</u>	<u>17,954,859</u>	<u>22,710,146</u>
<b>Fund balance/net assets, end of year</b>	<u>\$ 6,675,740</u>	<u>\$ 356,235</u>	<u>\$ 7,031,975</u>	<u>\$ 19,153,078</u>	<u>\$ 26,185,053</u>

The accompanying notes are an integral part of these financial statements.



**ANN ARBOR DISTRICT LIBRARY**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances to the Statement of Activities**  
**For the Year Ended June 30, 2007**

Net change in fund balances - total governmental funds	\$ 2,276,688
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	1,834,203
Deduct: depreciation expense	(628,381)

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the capital assets sold.

Deduct: loss from disposition of capital assets	(1,800)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: Increase in the accrual for compensated absences	(5,803)
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Change in net assets of governmental activities	\$ 3,474,907
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The accompanying notes are an integral part of these financial statements.

**ANN ARBOR DISTRICT LIBRARY**  
**Statement of Revenue, Expenditures**  
**and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2007**

	<b>Budgeted Amounts</b>			<b>Variance With</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Revenue</b>				
Property taxes, net	\$ 13,766,000	\$ 13,766,000	\$ 14,004,737	\$ 238,737
State penal fines	240,000	240,000	302,926	62,926
State aid	100,000	100,000	123,003	23,003
Interest income	175,000	175,000	497,051	322,051
Copier revenue	32,000	32,000	40,617	8,617
Grants and memorials	95,000	95,000	57,440	(37,560)
Library fines, fees and other	225,000	225,000	397,615	172,615
Non-resident fees	20,000	20,000	23,103	3,103
Total revenue	14,653,000	14,653,000	15,446,492	793,492
<b>Expenditures</b>				
Current:				
Salaries and wages	5,715,000	5,715,000	5,581,196	133,804
Employee benefits	1,480,000	1,480,000	1,469,390	10,610
Employment taxes	438,000	438,000	419,664	18,336
Purchased services:				
Custodial services	200,000	200,000	199,442	558
Professional services	183,000	255,860	231,004	24,856
Utilities	310,000	310,000	305,900	4,100
Property insurance	85,000	85,000	80,856	4,144
Communications	141,000	141,000	130,658	10,342
Repairs and maintenance	239,000	239,000	238,132	868
Rent	285,000	285,000	274,415	10,585
Materials	1,550,000	1,550,000	1,549,915	85
Operating supplies and expense	494,000	494,000	471,776	22,224
Library programming	293,000	293,000	286,524	6,476
Seminars, conferences and travel	64,000	64,000	54,540	9,460
Grant and memorial expenses	95,000	95,000	45,273	49,727
Capital outlay	5,215,000	5,215,000	1,834,203	3,380,797
Total expenditures	16,787,000	16,859,860	13,172,888	3,686,972
Net change in fund balances	(2,134,000)	(2,206,860)	2,273,604	4,480,464
Fund balance, beginning of year	4,402,136	4,402,136	4,402,136	-
<b>Fund balance, end of year</b>	<b>\$ 2,268,136</b>	<b>\$ 2,195,276</b>	<b>\$ 6,675,740</b>	<b>\$ 4,480,464</b>

The accompanying notes are an integral part of these financial statements.

## NOTES to the FINANCIAL STATEMENTS

# **ANN ARBOR DISTRICT LIBRARY**

## **Notes to the Financial Statements**

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### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Reporting entity**

The Ann Arbor District Library (the “Library”) is a public entity, which enjoys dual tax status as both a municipality and a 501(c)(3) tax-exempt organization.

Pursuant to Public Act 145 of 1993 (Proposal A), effective July 1, 1996, school districts in Michigan are not allowed to levy a millage for public libraries. The Library was, therefore, spun off from the Ann Arbor Public Schools (the “Schools”) to operate as an independent body with its own board of trustees and its own tax levy. The Library has received voter approval to levy up to 2.0 mills. The Library levied 1.9214 mills for the year ending June 30, 2007. Assets and liabilities of the Library were transferred as of July 1, 1996. The Library is governed by an elected Board (the “Library Board”) which consists of seven members elected at large from the Library District.

The District Library’s borders encompass the City of Ann Arbor (the “City”), and the Townships of Ann Arbor, Lodi, Northfield, Pittsfield, Salem, Scio, Superior, and Webster. Properties in each governmental unit are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year.

The Library has implemented the Governmental Accounting Standards Board’s Statement No. 14, and has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the Library.

#### **B. Library-wide and fund financial statements**

The Library-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Library had no business-type activities during the year ended 2007.

Major individual governmental funds are reported as separate columns in the fund financial statements.

# ANN ARBOR DISTRICT LIBRARY

## Notes to the Financial Statements

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### **C. Measurement focus, basis of accounting, and financial statement presentation**

The Library-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received, intergovernmental revenue, and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Library reports the following major governmental fund:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the Library reports the following fund types:

The permanent funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specific government programs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Library-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

# **ANN ARBOR DISTRICT LIBRARY**

## **Notes to the Financial Statements**

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When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### **D. Assets, liabilities and equity**

#### **1. Cash and cash equivalents/investments**

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

#### **2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no such interfund loans outstanding at June 30, 2007.

#### **3. Prepaid items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

#### **4. Capital assets**

Capital assets, which include property and equipment, are reported in the governmental activities column in the Library-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

# ANN ARBOR DISTRICT LIBRARY

## Notes to the Financial Statements

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Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-45
Vehicles	4-12
Equipment	5-20

### 5. Compensated absences

Compensated absences represent the estimated liability to be paid to employees under the Library's compensated absences policy, net of the portion that is estimated to be paid currently. Under the Library's policy, employees earn compensated absence time based on time of service with the Library.

### 6. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

The General fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Library Board. The budget for the General Fund is adopted on a functional basis. Variances with the Final Budget are shown on the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund.

# ANN ARBOR DISTRICT LIBRARY

## Notes to the Financial Statements

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets follows:

**Statement of Net Assets:**

Cash and cash equivalents	\$ 3,306,941
Investments	<u>4,435,711</u>
	<b><u>\$ 7,742,652</u></b>

These balances are disclosed in the notes as follows:

Petty cash	
Bank deposits (checking and savings accounts)	\$ 1,630
	3,305,311
Investments	<u>4,435,711</u>
	<b><u>\$ 7,742,652</u></b>

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the United States, certain commercial paper, repurchase agreements, banker acceptances and mutual funds composed of otherwise legal investments.

#### Investments

The District chooses to disclose its investments by specifically identifying each. As of year -end, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Federated Govt. Ultrashort Fund	n/a	\$ 12,433	S&P – AAA
Marshall Govt Money Mkt Class I	n/a	1,580,162	Fitch – AAA
Northern Inst. Govt. Select Portfolio	n/a	46,645	n/a
Fed. Home Loan Bank bonds 2.375%	07/09/07	454,825	S&P – AAA
Fed. Home Loan Bank bonds 4.000%	08/17/07	151,952	S&P – AAA
Fed. Home Loan Bank bonds 4.500%	08/23/07	111,588	S&P – AAA
Fed. Home Loan Bank bonds 3.375%	10/05/07	50,123	S&P – AAA
Fed. Home Loan Bank bonds 4.000%	12/17/07	149,296	S&P – AAA
Fed. Home Loan Bank bonds 5.000%	02/15/08	50,819	S&P – AAA
Fed. Home Loan Bank bonds 3.250%	03/14/08	19,906	S&P – AAA
Fed. Home Loan Bank bonds 5.050%	08/04/08	50,080	S&P – AAA
Fed. Home Loan Bank bonds 5.250%	09/15/08	50,023	S&P – AAA
Fed. Home Loan Bank bonds 4.125%	12/15/09	24,436	S&P – AAA
Fed. Home Loan Bank bonds 4.000%	11/26/10	483,083	S&P – AAA
Fed. Home Loan Bank bonds 5.000%	10/24/14	437,700	S&P – AAA
Fed. Home Loan Bank bonds 4.000%	06/30/15	489,274	S&P – AAA
Fed. Home Loan Bank bonds 4.250%	07/30/15	248,519	S&P – AAA
Fed. Nat'l Mtg Assn Step Up 4.625%	12/28/09	<u>24,847</u>	S&P – AAA
		<b><u>\$ 4,435,711</u></b>	



# ANN ARBOR DISTRICT LIBRARY

## Notes to the Financial Statements

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### **Investment and deposit risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates of investments are shown in the investment schedule above.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year- end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year end, \$3,257,975 of the Library's bank balance of \$3,357,975 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Library does not have a policy for investment custodial credit risk. Although uninsured and unregistered, the Library's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department or agent in the Library's name. Also, \$46,645 of the investments listed above are unclassified as to custodial credit risk as the invested amount is part of an investment pool.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Library's investment policy restricts commercial paper in any one fund to no more than 33% at any time. All investments held at year-end are reported above.

# ANN ARBOR DISTRICT LIBRARY

## Notes to the Financial Statements

### B. Capital assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 2,108,183	\$ -	\$ -	\$ 2,108,183
Construction in progress	525,372	1,410,976	-	1,936,348
Total capital assets not being depreciated	2,633,555	1,410,976	-	4,044,531
Capital assets being depreciated				
Buildings and improvements	17,312,881	66,645	-	17,379,526
Vehicles	183,256	-	-	183,256
Communications equipment	429,943	-	-	429,943
Computer equipment	1,125,203	116,452	28,993	1,212,662
Furniture and equipment	1,059,297	112,657	4,000	1,167,954
Other equipment	455,610	127,472	-	583,082
Total capital assets being depreciated	20,566,190	423,226	32,993	20,956,423
Less accumulated depreciation for:				
Buildings and improvements	3,217,775	338,191	-	3,555,966
Vehicles	121,068	12,273	-	133,341
Communications equipment	295,342	44,900	-	340,242
Computer equipment	781,118	129,671	27,193	883,596
Furniture and equipment	384,361	57,445	4,000	437,806
Other equipment	196,127	45,901	-	242,028
Total accumulated depreciation	4,995,791	628,381	31,193	5,592,979
Total capital assets being depreciated, net	15,570,399	(205,155)	1,800	15,363,444
<b>Governmental activities capital assets, net</b>	<b>\$ 18,203,954</b>	<b>\$1,205,821</b>	<b>\$ 1,800</b>	<b>\$ 19,407,975</b>

# ANN ARBOR DISTRICT LIBRARY

## Notes to the Financial Statements

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Loss on disposition of capital assets of \$1,800 is included in depreciation expense on the Statement of Revenues, Expenditures and Changes in Fund Balances and Statement of Activities – Governmental Funds.

### C. Long-term debt

The following is a summary of long-term debt outstanding of the Library for the year ended June 30, 2007:

	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b><u>Ending Balances</u></b>	<b><u>Due in One Year</u></b>
Sick and vacation leave pay	<b><u>\$ 249,094</u></b>	<b><u>\$ 5,803</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 254,897</u></b>	<b><u>\$ 30,000</u></b>

### D. Leases

The Library leases equipment under operating leases. The future minimum lease payments under non-cancelable leases at June 30 are summarized as follows:

<b><u>Year Ended June 30,</u></b>	<b><u>Amount</u></b>
2008	\$ 35,486
2009	30,732
2010	10,830
2011	2,148
2012	<u>895</u>
<b>Total future expenditures</b>	<b><u>\$ 80,091</u></b>

# ANN ARBOR DISTRICT LIBRARY

## Notes to the Financial Statements

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The Library rents building space for two of the branches under operating leases. The rental payment includes taxes and shared building expenses. The minimum future rental payments at June 30 are summarized as follows:

<b>Year Ended <u>June 30,</u></b>	<b><u>Amount</u></b>
2008	\$ 180,394
2009	177,764
2010	<u>79,912</u>
<b>Total future rentals (including estimated taxes and shared building expenses)</b>	<b><u>\$ 438,070</u></b>

Total rental expense under the above leases for the year ended June 30, 2007 was \$266,347.

### **E. Transfers of assets and assumption of liabilities and contractual obligations**

Effective July 1, 1996, the Schools transferred all of the assets (the "Premises") of its library fund to the Library subject to all the liabilities and contractual obligations, including contingent liabilities, of or incurred by the former library.

At the time of the separation of the Library from the Schools under the District Library Agreement ("DLA"), the Library, the Schools and the City executed an Employee Transfer Agreement which outlined many of the provisions governing the formation of the District Library and the terms and conditions of employment relations during the transition period. The Employee Transfer Agreement provides that the Library shall continue to make retirement contributions to MPSERS for Former School Library Employees ("FSLE"), that is, those employed prior to July 1, 1996. As provided in the Agreement, the Library has continued to make contributions to MPSERS on behalf of FSLE with the exception of certain identified hourly employees. The Library has also adopted a 403(b) defined contribution plan which allows for participation by certain designated employees who are not part of the FSLE group.

# ANN ARBOR DISTRICT LIBRARY

## Notes to the Financial Statements

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### IV. OTHER INFORMATION

#### A. Pension plans

##### **Defined Benefit Pension Plan**

Library employees hired prior to July 1, 1996 are eligible to participate in the Michigan Public School Employees Retirement System (MPERS). The Plan Description, Funding Policy and Description of Other Post Employment Benefits follows.

##### ***Plan Description***

MPERS is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

##### ***Funding Policy***

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 17.74% of annual covered payroll. The contribution requirements of plan members and the Library are established by Michigan State statute and may be amended only by action of the State Legislature. The Library's contributions to MPERS for the years ended June 30, 2007, 2006 and 2005 were \$271,338, \$251,966, and \$245,030, respectively, equal to the required contributions for each year.

# **ANN ARBOR DISTRICT LIBRARY**

## **Notes to the Financial Statements**

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### ***Other Post Employment Benefits***

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

### **Defined Contribution Plan**

Employees hired subsequent to July 1, 1996 are not eligible to participate in the MPSERS as the Library is no longer operated by the Schools. However, some employees are eligible to participate in the Library's 403(b) retirement savings plan (the "Plan"), a defined contribution plan which consists of a tax deferred annuity. Employees are eligible to participate in the Plan as of their start date of employment. The Plan, called the Ann Arbor Library 403(b) Tax Sheltered Annuity Plan, is administered by the District Library and has been reviewed and approved by the Internal Revenue Service. Plan provisions and contribution requirements are established and may be amended by the Library Board of Directors.

The Library contributes 10% of the eligible salaried employees' base pay. There are no employee matching requirements, however, employees can contribute the maximum amount as required by current IRS guidelines into any one of six mutual funds with variable degrees of risk. Both employee and employer contributions are portable, thus in the event an employee terminates employment with the Library, the Plan benefits travel with the employee. Upon retirement, an eligible employee receives the tax-deferred contributions plus interest earnings on the contributions. The employer and employee contribution requirements for the Plan year ended June 30, 2007, were \$286,279 and \$342,164, respectively.

# **ANN ARBOR DISTRICT LIBRARY**

## **Notes to the Financial Statements**

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### **B. Risk management**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for general liability, property casualty, health claims and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### **C. Commitments**

At June 30, 2007, the Library had commitments in the amount of approximately \$5,505,000 for future capital expenses in connection with the Northeast Branch Expansion project.

\* \* \* \* \*

COMBINING and INDIVIDUAL FUND  
FINANCIAL STATEMENTS and SCHEDULES



**ANN ARBOR DISTRICT LIBRARY**  
**Nonmajor Permanent Funds**  
**Combining Balance Sheet**  
**June 30, 2007**

	<b>Holtrey</b>	<b>Keniston</b>	<b>Total</b>
	<b>Endowment</b>	<b>Endowment</b>	
<b>Assets:</b>			
Cash and cash equivalents	\$ 326,477	\$ 29,758	\$ 356,235
<b>Fund Balances:</b>			
Reserved for:			
Endowment principal	\$ 300,000	\$ 25,000	\$ 325,000
Unreserved	26,477	4,758	31,235
Total fund balances	\$ 326,477	\$ 29,758	\$ 356,235

**ANN ARBOR DISTRICT LIBRARY**  
**Nonmajor Permanent Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2007**

	<b>Holtrey Endowment</b>	<b>Keniston Endowment</b>	<b>Totals</b>
<b>Revenues:</b>			
Investment income	\$ 2,827	\$ 257	\$ 3,084
<b>Expenditures</b>	-	-	-
Net change in fund balances	2,827	257	3,084
<b>Fund Balances - Beginning of Year</b>	323,650	29,501	353,151
<b>Fund Balances - End of Year</b>	<u>\$ 326,477</u>	<u>\$ 29,758</u>	<u>\$ 356,235</u>

**ANN ARBOR DISTRICT LIBRARY**  
**Schedule of Operating Revenue and Expenditures - General Fund**  
**For the Year Ended June 30, 2007**

**Revenue**

Property taxes, net	\$ 11,309,175
State penal fines	302,926
State aid	123,003
Interest income	497,051
Copier revenue	40,617
Grants and memorials	47,440
Library fines, fees and other	397,615
Non-resident fees	23,103
	<hr/>
Total revenue	12,740,930
	<hr/>

**Expenditures**

Current:

Salaries and wages	5,581,196
Employee benefits	1,469,390
Employment taxes	419,664
Purchased services:	
Custodial services	199,442
Professional services	185,897
Utilities	305,900
Property insurance	80,856
Communications	130,658
Repairs and maintenance	238,132
Rent	274,415
Materials	1,549,915
Operating supplies and expense	471,776
Library programming	286,524
Seminars, conferences and travel	54,540
Grant and memorial expenses	28,423
Capital outlay	376,793
	<hr/>
Total expenditures	11,653,521
	<hr/>
Revenue over expenditures	\$ 1,087,409
	<hr/> <hr/>

**ANN ARBOR DISTRICT LIBRARY**  
**Schedule of Branch Expansion Revenue and Expenditures - General Fund**  
**For the Year Ended June 30, 2007**

**Revenue**

Property taxes, net	\$ 2,695,562
Grants/Memorials	10,000
	<u>2,705,562</u>

**Expenditures**

Purchased services	45,107
Other operating expenses	16,850
Capital outlay	<u>1,457,410</u>
Total expenditures	<u>1,519,367</u>

Revenue over expenditures	<u><u>\$ 1,186,195</u></u>
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# REHMANN ROBSON

*Certified Public Accountants*

*A member of* THE REHMANN GROUP



October 15, 2007

To the Board of Trustees of the  
Ann Arbor District Library  
Ann Arbor, Michigan

We have audited the financial statements of the Ann Arbor District Library for the year ended June 30, 2007, and have issued our report thereon dated October 15, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America**

As stated in our engagement letter dated June 28, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Ann Arbor District Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Ann Arbor District Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Ann Arbor District Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Ann Arbor District Library's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Ann Arbor District Library, either individually or in the aggregate, indicate matters that could have a significant effect on the Ann Arbor District Library's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Ann Arbor District Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing and completing our audit.

This letter and the accompanying memorandum are intended solely for the use of the Board of Trustees and management of the Ann Arbor District Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

**Ann Arbor District Library  
Comments and Recommendations  
For the Year Ended June 30, 2007**

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In planning and performing our audit of the financial statements of Ann Arbor District Library as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control.

However, during our audit, we became aware of a certain matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that follows summarizes our comments and suggestions regarding this matter. This letter does not affect our report dated October 15, 2007, on the financial statements of the Ann Arbor District Library.

We will review the status of this comment during our next audit engagement. We have already discussed this comment with Library personnel, and we will be pleased to discuss it in further detail at your convenience.

**Other Matter**

**Payroll system documentation**

There is a payroll system procedure that requires a sign – off from employees that they have received their payroll check. These forms with the signatures come back to HR/Payroll, and scanned to determine that there is a signature by each name for which a check is issued. These forms are discarded within a few days after each payroll period.

In order to enhance the internal control documentation, we recommend the Library maintain the forms for at least a year, or until the annual independent audit is completed.

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